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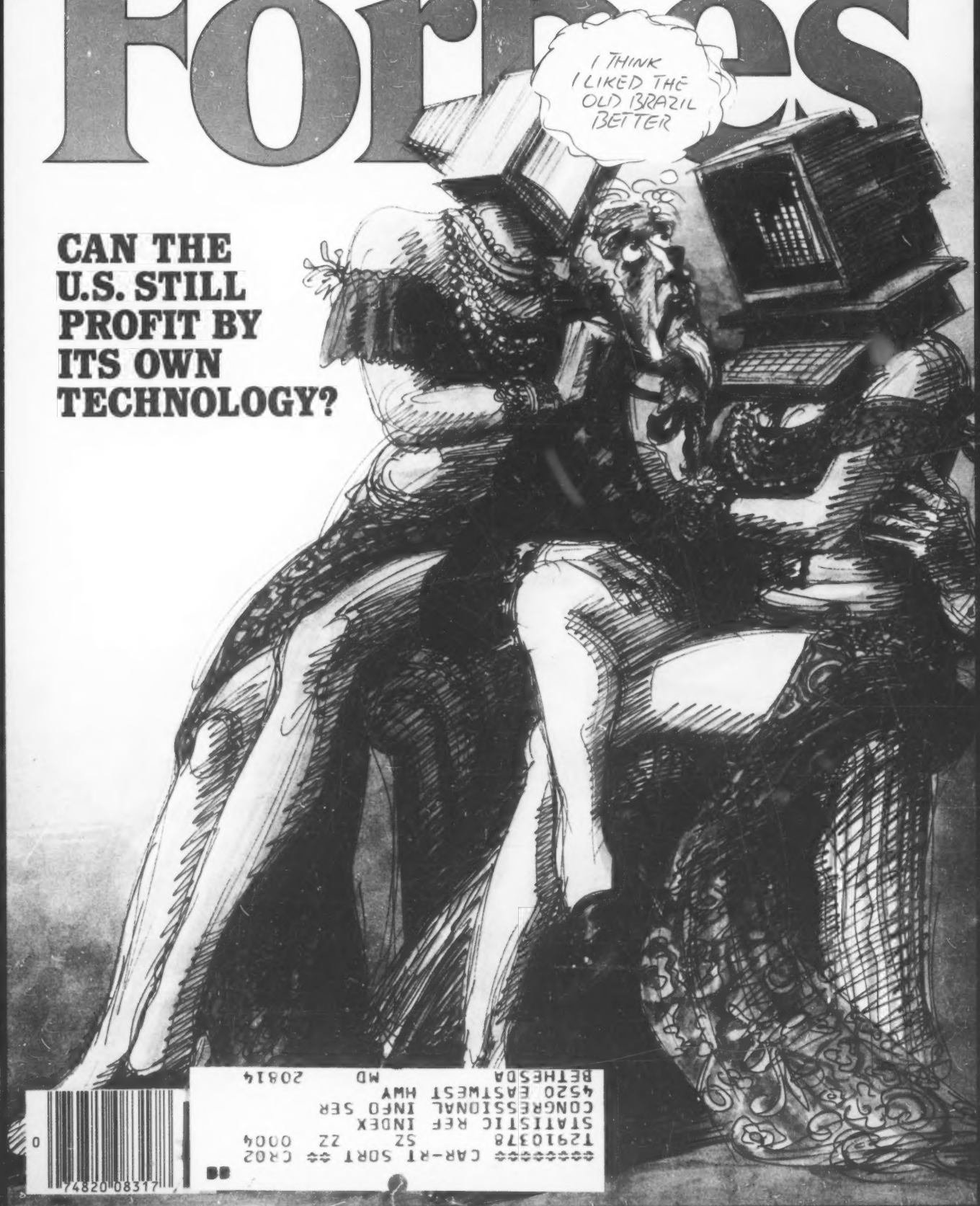
Forbes

CAN THE U.S. STILL PROFIT BY ITS OWN TECHNOLOGY?



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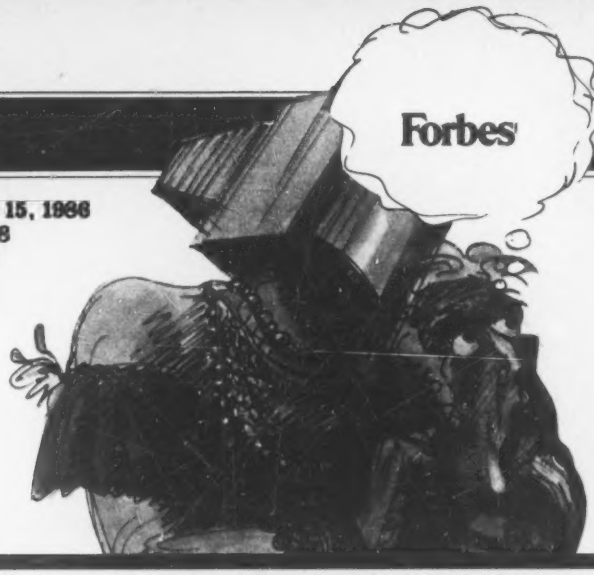

98 *William Seidman of the FDIC*

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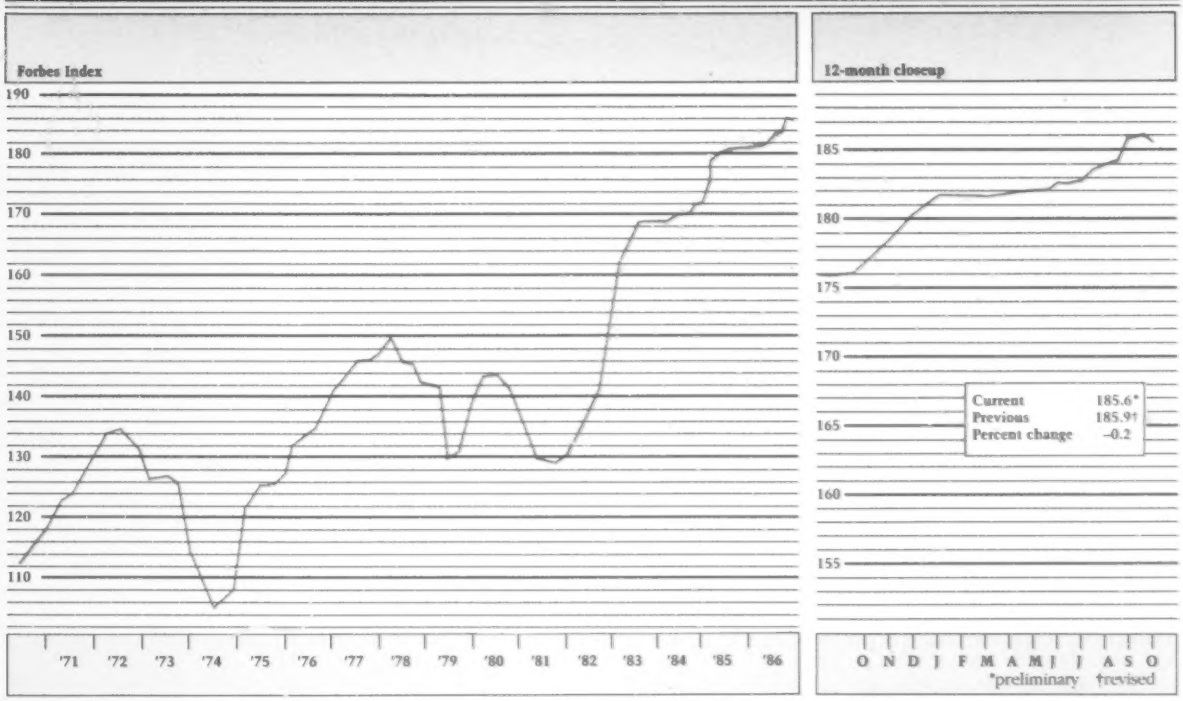
The Forbes Index



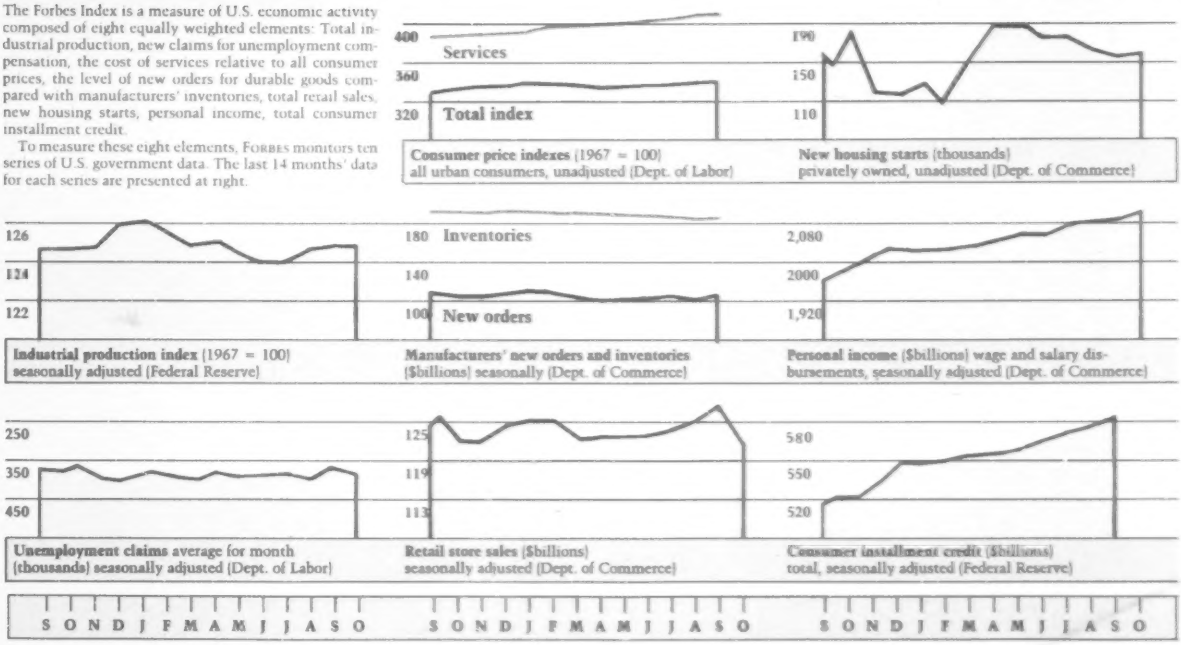
Kerplunk. The Forbes Index fell 0.2% during the latest reporting period, the sharpest decline since August 1984. Retail sales, no longer being boosted by dirt-cheap auto financing, dropped 5% from September to October. Industrial production was flat in October. Since 1977 the index for industrial production has climbed only 25.2%.

Personal income has been growing 0.7% month to month. But consumer installment credit is racing ahead, up 1.5% from August to September (latest period available). A good part of the credit surge, of course, is explained by the automakers' promotions this fall. But this growing gap between income and debt, coupled with the gradual phasing out of installment interest deductions in the new tax law, could curtail spending next year.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
Services
360
320
Total index
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
126
124
122
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
Inventories
140
100
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2,080
2000
1,920
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
125
119
113
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
580
550
520
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
S O N D J F M A M J J A S O
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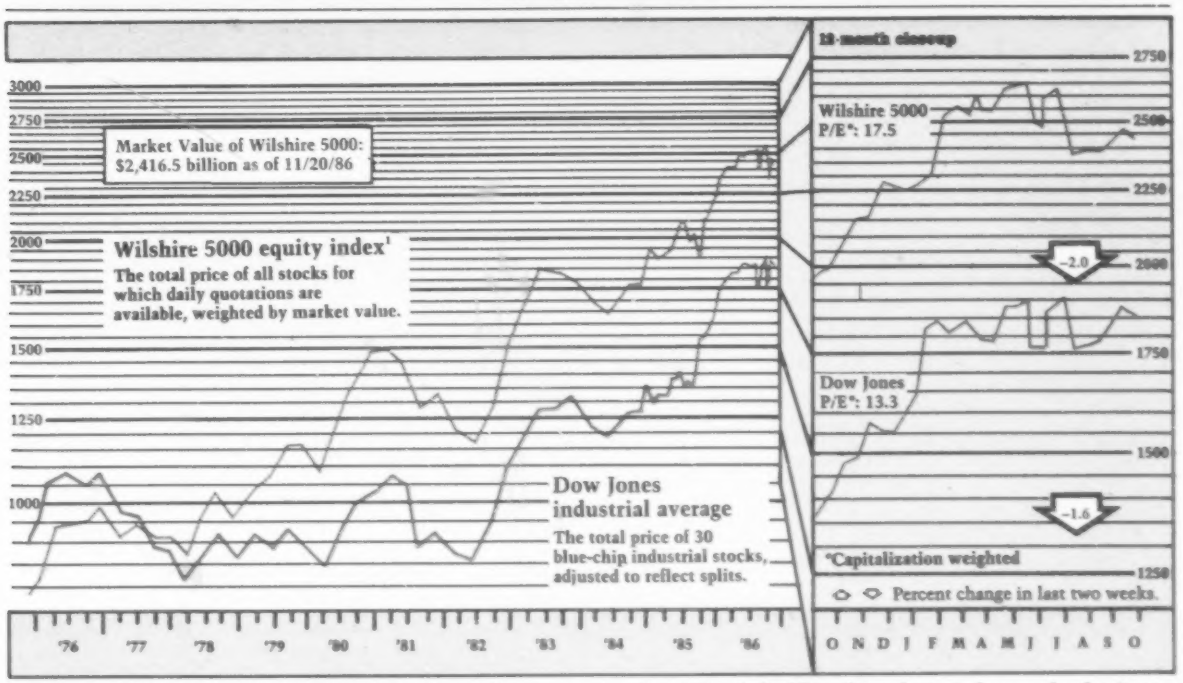
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market Value of Wilshire 5000: $2,416.5 billion as of 11/20/86
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
12-month closeup
Wilshire 5000 P/E*: 17.5
Dow Jones P/E*: 13.3
-2.0
-1.6
*Capitalization weighted
Percent change in last two weeks.
'76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86
O N D J F M A M J J A S O

A 34-point rally during the final trading day of the two-week period tracked here cut the two-week loss on the Dow industrials to 1.6%. This late surge, following a bad case of the Boesky blues, also gave the Dow some comfortable breathing room over the 1800 level, an event that technicians might find significant. And despite the recent turmoil, the Dow still holds some 75% of the gains it has made since its interim bottom in late September. Secondary shares finished the ten-day trading period a little further behind the blue chips, but not by much; the Amex, for example, was off 2.1%.

The overall market, as measured by the Wilshire index, fell 2% in the last two weeks. But the Wilshire is still selling at a rather high 17.5 times latest 12-month earnings. Helping to sustain this P/E are Wall Street's lofty 1987 earnings projections *(see story, p. 196)*. However, if the earnings forecasts prove to be too cheery, investors will have more to worry about than insider trading.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.6	1.0	1.4	0.9	–0.3	–1.1
in last 52 weeks	18.3	15.3	27.2	19.7	8.7	13.9

Stock performance based on six key investor yardsticks

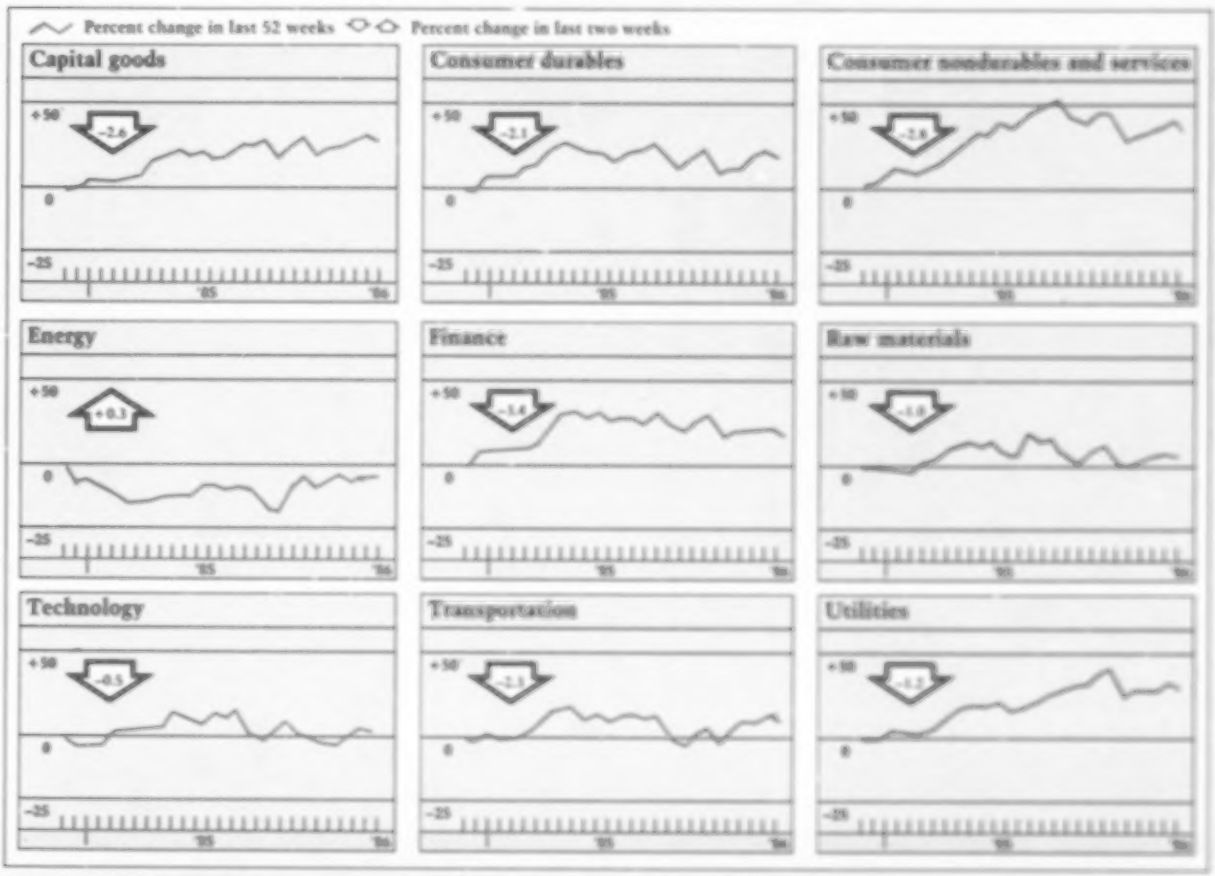
Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	0.7	3.4	6.1	0.6	1.2	–0.8	0.5	0.0	2.9	0.9	–0.2	1.5
in last 52 weeks	22.6	40.5	56.5	27.2	15.6	27.4	20.3	32.9	45.6	33.1	28.0	26.0

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 11/20/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

What it will take to close the technology gap. While the overall market doesn't look undervalued, the technology sector shows signs of it. Over the last 52 weeks technology stocks lag every sector except energy. Technology gained only 4.2% over the last 52 weeks, vs. 29.3% for consumer nondurables, the leading sector, and 18.3% for the market as measured by the Wilshire index. What's wrong? The technology group is struggling with cutthroat competition in the semiconductor industry and a slump in computer business. Moreover, IBM, the stock that makes up about a quarter of the capitalization-weighted technology sector, is dragging down the group. Thanks to weak earnings, IBM's share price is off 12% over the past year. If IBM recovers, the group should follow.



What The Analysts Think

With the fourth quarter nearly over, analysts are scrambling to reduce their 1986 earnings estimates. The Institutional Brokers Estimate System reports that for every five 1986 estimates being raised, eight are cut. Technology, transportation and capital goods stocks have been hit hardest. *(For more IBES numbers, see following story.)*

Forecasting the Forbes 300

Performance period	Average earnings per share	P/E
latest 12 months	$2.72	15.9
1986 estimates	3.16	13.7
1987 estimates	3.90	11.4

Rank based on change in estimate	Sector	Estimated 1986 EPS	Estimated 1986 P/E	% change in 1986 estimate in 2 weeks	% change in 1986 estimate in 4 weeks
1	Utilities	$3.29	10.6	-0.12%	-0.08%
2	Energy	2.49	14.4	-0.23	-0.17
3	Consumer nondurables	2.89	16.8	-0.26	-0.77
4	Finance	3.34	10.5	-0.43	-1.41
5	Consumer durables	1.79	11.0	-0.78	-0.66
6	Raw materials	1.78	16.0	-0.83	-1.56
7	Technology	2.45	15.3	-1.24	-2.89
8	Transportation	1.48	22.3	-1.32	-2.19
9	Capital goods	2.14	17.0	-1.86	-3.19

Earnings projections are capitalization-weighted consensus estimates from over 2,000 securities analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 11/20/86. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

These companies are due for big earnings gains next year, if the analysts are right. Caution: Analysts are eternal optimists.

High hopes

By Steve Kichen

Now, we won't spare any scrumptious bargains for you on these pages, but we do have some intriguing situations. Look down to Commercial Airlines, on page [illegible]. If the Wall Street crowd is right about this high-risk stock, it will earn $2.40 or so next year, meaning that the current [illegible] price tag on the stock represents a future P/E of only 11. Trans Air Commercial's parent, [illegible] has [illegible] million, with a projected $4.20 or so.

Then there's W.R. Builders, available for 5.8 times the $4 or so it's supposed to do next year. Home Group, Pentower General and the St. Paul Cos. are among the other more

Outlook: better earnings

Company/business	Recent price	Earnings per share 1992 est	Earnings per share 1993 est	Earnings per share % change	Estimated 1993 P/E	Estimates quarters	Estimates confidence factor
Acculine/electrical equipment	14¾	$0.43	$1.06	147%	14	4	low
ACI Holdings/airline	14¾	3.10	3.89	26	10.5	4	very low
Adams-Russell/cable television	23¾	1.75e	1.45	-17	16.5	4	low
Affiliated Bankshares of Colorado/bank holding	12	0.89	1.11	25	9.6	4	low
Air Products & Chemicals/industrial gases	36¾	3.00e	3.84	28%	10.5	16	average
Alberto-Culver/personal care goods	33	0.68e	1.13	66	29.8	8	very high
Alcoa/aluminum	49¾	3.35	3.87	16	12.9	20	low
Amdahl/computer equip	13¼	0.65	1.45	123	9.0	18	low
America West Airlines	8¼	0.72	1.49	71	5.5	11	very low
American Freedom Cos/mass transport	22¼	0.35	1.34	283%	16.5	4	very low
Anheuser-Busch/food processing	32¼	0.99	1.65	67%	19.5	7	low
Anthem Electronics/electronics	11¼	0.58	1.05	81	10.7	6	low
Apollo Computer/computer equip	13¾	0.56	0.77	38	17.9	18	low
Applied Materials/equip for mfg semiconductors	35¾	0.96	3.46	259%	10.3	16	very low
Augat/electromechanical components	16¾	1.02	1.19	16	13.9	10	low
Bearings/bearings, power trans equip	22¾	0.76e	1.69	122%	13.7	4	average
Bean Process/hosiery equip	12¼	0.55	0.67	22	18.1	4	low
Bell Info/electronics	18¾	0.56e	0.97	73	18.1	7	low
Beneficial Corp/finance	71¼	3.10	3.65	18	19.7	8	average
BH Builder/insurance	32¾	1.35	4.45	70	7.2	3	average
Bon Trade/retailing department	11	0.25	1.15	360%	9.6	16	low
Bocraft Labs/generic drugs	19¾	0.48	1.45	76	16.1	4	average
Black & Decker/electric tools and appliances	16¾	0.65	1.37	108	12.0	16	low
Bundy/structural equip	14¾	0.51	1.49	78	10.0	16	average
Business Men's Assurance/insurance	35¼	1.10	3.38	75	11.0	7	low
Businessland/computer stores	19¾	0.13e	0.56	331%	35.1	7	low
Butler Intl/aviation services	19¾	0.40	0.77	93	24.0	4	low

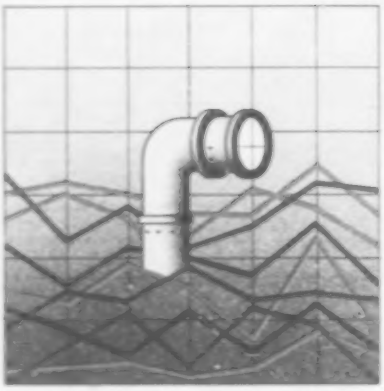
* 100% or more. e: Actual

Source: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, an Alfred Lynch Trust on Citibase/Price Data Corporation Service

ance stocks trading at cheap multiples of their projected earnings. Western Capital Investment, Navistar International [truck manufacturing] and Farah Manufacturing [clothes] are also seemingly cheap.

What's the catch? Mainly, that analysts' guesses as to next year's earnings are about as reliable as a long-range weather forecast. An analyst has enough trouble predicting how a nearly completed year will come out, as our recent look-back on year-ago predictions for the 30 Dow stocks showed [FORBES, *Dec. 1*]. But this may be helpful to investors: By and large, when the analysts are wrong, they guess too high.

The table that follows includes good-size companies with expected earnings per share gains of at least 70%. Generally the data don't count nonrecurring items like asset sales and writeoffs. [Our table comes cour-



tesy of Institutional Brokers Estimate System, which gathers forecasts on 3,500 companies from 135 brokerage firms.]

You won't find such names as Bethlehem Steel, Exxon, General Motors or USX listed. They aren't due for big earnings jumps, according to the experts. Wall Street is expecting that autos and major oils will amble along. But they are looking for better than average gains in such areas as chemicals, semiconductors, machine tools and regional banks.

For instance, Wall Street has Genentech down for magnificent earnings growth in 1987, from 35 cents a share to 89 cents. Even against the year-ahead earnings, however, this biotech company is trading at what some would consider a ridiculous multiple of 95. For the price to be reasonable, the 154% growth rate must continue for a couple of years more.

A major caution is that for some of these companies the analysts don't come close to agreement in their predictions. This is indicated in the column "confidence factor." Continental Air rates a "low" in this department. Meaning that the analysts are all over the lot on the projections. ■

Outlook: better earnings

Company/business	Recent price	Earnings per share 1986 est	Earnings per share 1987 est	Earnings per share % change	Estimated 1987 P/E	Estimates number	Estimates confidence factor
Catalyst Energy Dev/alternative energy sys	22½	$0.59	$1.29	119%	17.4	4	average
CBI Inds/metal fabricating	25	1.04	1.90	83	13.2	5	very low
Champion Spark Plug/auto parts	10¼	0.16	0.61	281	16.8	5	low
Chesapeake Corp/packaging	33⅞	1.17	2.46	110	13.8	10	low
Claire's Stores/apparel stores	7¼	0.32	0.64	100	11.3	9	low
Coastal Corp/oil and gas	31⅝	1.67	3.33	99	9.5	21	low
Cobancom/lasers	9⅛	0.17	0.67	294	14.7	5	low
Collagen/biotechnology	9⅝	0.22a	0.39	77	24.7	5	average
Colorado National Bankshares/bank holding	14⅜	0.80	1.41	76	10.5	7	low
Comair/airline, freight forwarding	8	0.55	1.20	118	6.7	3	average
COMB/specialty retail	18	0.38	1.10	189	16.4	7	very low
Comp-U-Card Intl/electronic shopping	11¼	0.51	0.89	73	13.4	3	average
Consumers Power/electric utility	16	0.61	1.08	77	14.8	18	very low
Continental Airlines/airline	15½	1.08	2.83	162	5.5	3	low
CooperVision/eyecare products	19¼	8.98	1.62	300*	11.9	9	low
Costco Wholesale/specialty retail	11⅜	0.15a	0.48	220	24.2	7	low
Cross & Trecker/machine tools	13⅞	0.02a	0.78	300*	17.8	19	low
Crystal Brands/apparel	20½	0.96	1.80	88	11.4	5	average
Cubic/electronics	14⅝	0.32	1.40	300*	10.3	3	low
Cummins Engine/mfr diesel engines	61¾	0.12	4.43	300*	14.3	10	very low
Data Card/credit card processing equip	12⅞	0.75	1.48	97	8.7	4	low
Data General/computer equip	31¼	0.21a	1.37	300*	22.8	28	low
Delta Air Lines/airline	47	1.16a	4.37	270	10.8	21	low
Diamond Shamrock/energy, chemicals	12⅜	0.13	0.59	300*	21.6	21	very low
Dome Mines Ltd/gold mines	7¼	0.12	0.26	117	27.9	14	very low
Dravo/construction	17½	0.53	1.08	104	16.2	3	low
DSC Communications/telecommunications equip	6½	0.38	0.68	79	9.6	19	low

* 300% or more a Actual

Source: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, via Micro Scan Data on Diskette from Lotus Information Services

Outlook: better earnings

Company/business	Recent price	Earnings per share 1986 est	Earnings per share 1987 est	% change	Estimated 1987 P/E	Estimates number	Estimates confidence factor
Emery Air Freight/freight forwarding	13⅜	$0.01	$1.13	300%*	12.1	18	low
Energen/gas utility	19	0.47a	1.77	277	10.7	3	high
Equimark/bank holding	4⅜	0.12	0.60	300*	7.3	3	very low
Esterline/precision instruments	11⅞	0.18	0.83	300*	14.3	4	very low
Fairchild Inds/aerospace	11⅛	0.46	1.04	126	10.7	9	low
Farah Mfg/apparel	15⅝	1.17	2.28	95	6.9	4	average
Federal Natl Mortgage/mortgages	33⅞	2.65	4.52	71	7.5	17	low
Fieldcrest Cannon/textiles	31½	1.93	3.38	75	9.3	7	very low
Fireman's Fund/insurance	32⅞	2.57	4.36	70	7.5	26	average
Floating Point Sys/computer equip	12¾	0.08	0.51	300*	25.0	17	very low
Freeport-McMoRan/minerals, oil and gas	18¼	0.65	1.21	86	15.1	16	low
Fremont General/insurance	16⅛	0.31	3.25	300*	5.1	6	low
Galileo Electro-Optics/precision instruments	35½	1.33a	2.30	73	15.4	3	average
Genentech/biotechnology	84¾	0.35	0.89	154	NM	20	very low
General DataComm Inds/computer equip	8¼	0.26a	0.72	177	11.5	13	low
General Instruments/electronics	16	0.69	1.47	113	10.9	11	very low
Golden Nugget/hotels and casinos	10⅝	0.46	0.88	91	11.5	8	average
BF Goodrich/tire and rubber	44⅛	1.41	4.05	187	10.9	12	low
WR Grace/multicompany	52	0.66	2.61	295	19.9	15	low
Guaranty Natl/insurance	7¼	0.58	1.00	72	7.3	3	very high
Frank B Hall/insurance brokerage	17¼	0.68	1.39	104	12.4	17	low
Harnischfeger/heavy equip	15¾	0.46	1.48	222	10.6	8	low
Heck's/retail	12⅜	0.41	1.03	151	12.0	8	very low
Home Group/insurance	17⅜	1.06	3.55	235	4.9	12	low
Homestake Mining/gold and metals mining	25	0.40	0.71	78	35.2	16	very low
Integrated Device Technology/electronics	7⅝	0.27	0.63	133	12.1	5	very low
Intermedics/health care equip	15½	0.25	0.78	212	19.9	6	very low
Intl Game Technology/coin-operated video games	9¾	0.06	0.64	300*	15.2	5	very low
IU International/multicompany	14¼	0.68	1.40	106	10.2	10	low
Joy Mfg/industrial machinery	26	0.63	1.15	83	22.6	17	low
Kansas City Southern/railroad	48⅞	1.09	2.60	139	18.8	7	low
Kennametal/metal fabricating equip	24⅝	0.06a	1.79	300*	13.8	10	average
Lancaster Colony/household prods	18¼	0.26a	1.67	300*	10.9	6	average
Litton Inds/multicompany	80	2.52a	5.79	130	13.8	17	average
Louisiana Bancshares/bank holding	8	0.27	0.79	192	10.1	3	very low
LSI Logic/semiconductors	8⅞	0.11	0.44	300*	20.2	15	low
Lynch Communications/telecomm equip	13⅝	0.37	0.76	105	17.9	6	low
Malrite Communications Group/broadcasting	10¾	0.08	0.45	300*	23.9	3	average
Meritor Savings Bank/savings and loans	8⅛	0.59	1.15	95	7.1	7	very low
Midway Airlines/airline	11⅛	0.55	1.04	89	10.7	8	low
Moore McCormack Resources/cement	19⅛	0.73	1.46	100	13.1	8	very low
NAC Re Corp/reinsurance	26½	1.20	2.38	98	11.1	6	very low
National Semiconductor/semiconductors	10¾	0.15	1.01	300*	10.5	15	very low
Natl Convenience Stores/convenience stores	9⅞	0.15a	0.52	247	19.0	8	very low
Navistar Intl/truck mfg	5½	0.32	0.79	147	7.0	14	very low
Northrop/aerospace	42⅜	1.46	4.96	240	8.5	23	average
Occidental Petroleum/integrated oil	27⅛	0.88	1.50	70	18.1	20	very low
Oneida Ltd/housewares	12⅛	0.47	0.95	102	12.8	3	low

*500% or more a: Actual NM: Not meaningful

Source: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, via MicroScan Data on Diskette from Lotus Information Services

Outlook: better earnings

Company/business	Recent price	Earnings per share 1986 est	Earnings per share 1987 est	% change	Estimated 1987 P/E	Estimates number	Estimates confidence factor
Orion Capital/insurance	26¾	$1.12	$3.62	223%	7.4	8	very low
Outboard Marine/outboard motors	29⅛	0.66a	2.54	285	11.5	9	low
Overseas Shipholding/ocean transport	18⅝	1.37	2.43	77	7.7	5	low
Pace Membership Warehouse/specialty retail	8¾	0.09	0.47	300*	18.6	5	low
Phelps Dodge/copper	17¾	1.39	2.55	83	7.0	19	very low
Pittston/oil and coal	11¾	0.30	0.84	180	14.0	10	low
Plains Petroleum/oil and gas expl, dev, prod	25⅛	0.35	1.67	300*	15.0	4	average
Pullman-Peabody/machinery	7¾	0.38	0.65	71	11.9	3	low
Quixote/highway safety prods	14¼	0.27a	0.71	163	20.1	5	low
Ransburg/machinery	11⅞	0.28	0.83	196	14.3	5	low
Reeves Communications/TV programming, prod	8¼	0.32a	0.78	144	10.6	5	low
Resorts Intl/hotels and casinos	47⅞	1.12	2.83	153	16.9	7	very low
Revlon Group/cosmetics	13	0.48	1.23	156	10.6	3	low
Ross Stores/apparel stores	5⅜	0.35	0.61	74	9.2	7	low
St Paul Cos/insurance	36¾	2.98	5.07	70	7.2	27	low
Seagate Technology/computer equip	16⅝	0.72a	1.71	138	9.7	20	low
SEI Corp/computer svcs to finance ind	19¼	0.77	1.45	88	13.3	3	low
Seibels Bruce Group/insurance	15	0.01	1.93	300*	7.8	7	very low
Sovereign/insurance	7⅛	0.23	0.46	100	15.5	7	very low
Spectra-Physics/lasers	20¾	0.11a	0.78	300*	26.6	6	low
Staley Continental/food processing	27¾	0.88a	2.29	160	12.1	15	low
Standard Microsystems/semiconductors	11⅛	0.30	0.87	190	12.8	7	very low
Stone Container/packaging	53½	1.24	4.40	255	12.2	13	low
Summit Health Ltd/health care svcs	6½	0.22a	0.56	155	11.6	6	low
Sun Electric/precision instruments	11⅛	0.21	0.85	300*	13.1	4	low
Sun Microsystems/computer equip	18⅛	0.46a	0.94	104	19.3	8	low
Telecredit/financial svcs	45¾	1.49	2.75	85	16.6	4	low
TeleVideo Sys/computer equip	2⅛	0.04	0.17	300*	12.5	3	very low
Teradyne/precision instruments	16⅛	8.98	0.79	300*	20.4	20	very low
Texas Air/airline	34⅞	1.50	4.01	167	8.7	9	very low
Texas Instruments/semiconductors	112⅝	1.26	7.49	300*	15.0	32	low
Tokheim/gasoline metering equip	19⅛	1.03	1.90	84	10.1	4	low
UAL/airline	56⅞	1.64	5.79	253	9.8	20	low
Ungermann-Bass/computer equip	10⅜	0.04	0.58	300*	17.9	12	average
Unitrode/semiconductors	11¾	0.06	0.73	300*	16.1	9	low
Valid Logic Sys/computer equip	6⅛	0.11	0.31	182	19.8	16	very low
Varity/machinery	1⅞	0.12	0.24	100	7.8	4	very low
Veeco Instruments/precision instruments	14½	0.56	1.03	84	14.1	5	average
Viacom Intl/TV programs	40⅞	0.36	1.02	183	40.1	10	low
VLSI Technology/electronics	10⅞	0.02	0.48	300*	22.7	13	low
Western Capital Investment/savings and loan	14¾	0.37	2.18	300*	6.8	5	low
Whitehall/multicompany	23⅜	1.06	2.98	181	7.8	6	average
Williams Cos/natural gas	22¼	0.31	1.36	300*	16.4	18	very low
Wyle Labs/electronics	12¼	0.53	0.95	79	12.9	8	low
York International/climate-control equip	16⅞	0.72	1.43	99	11.8	3	very low
Zenith Electronics/consumer electronics	20⅛	0.01	0.97	300*	20.7	12	very low
Zenith Labs/generic drugs	10	0.25	0.68	172	14.7	11	low
Zenith Natl Ins/insurance	22	1.78	3.14	76	7.0	6	average

*300% or more. a: Actual.

Source: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, via Micro Scan Data on Diskette from Lotus Information Services.